

The Australian Family & Private Business Survey 1997

(Summary)

Monash University Family & Private Business Research Unit

"...the impact of generational change on ownership and management an issue which more than 50% of family businesses will encounter over the next 10 years".

1. "The response rate to this survey was 30%. Thus, these findings can be viewed as representative of Australian Family Businesses".
2. "...family controlled companies are the prevailing form of enterprise.....and the predominant mainstay of most economies".
3. "...definitions of what comprises a family firm seem to have focused on three main issues: *the extent of ownership and/or management; the degree of family involvement; the availability of family members for generational transfer*".
4. " some of Australia's largest firms [eg; Bob Jane, Pratt, Hannan, Moran Health Care] indicate that they are family businesses".
5. "Over the next 10 years, the retirement of family business owners will accompany the transfer of ownership of an estimated \$607 billion of wealth."
6. "Only 22% of owners note having a process for handling conflicting family and business issues." – only 8% documented.
7. The survey covered 10 sections -
 - Background of the Business
 - Current Ownership
 - Management of the Business
 - Succession & Retirement Plans
 - Family Business Issues
 - Banking & Insurance
 - Planning the Growth of the Business
 - Management Development & Training
 - Alternate Investment
 - Background of the Owner

8. Background of the Owner

- Average age is 52 years
- 20% are over 60 years
- Female owners represent 3% (of respondents)
- 40% of owners have tertiary qualifications
- 87.5% of owners are married

9. Types of Industries

- Manufacturing 32%
- Wholesale/Retail 24.1%
- Construction 7.6%
- Technology 7% (approx)
- Finance 7% (approx)
- Other 13% (approx)

10. Management by Generation of Ownership

- First Generation family owners 70.6%
- Second G 20.3%
- Third G 6.2%
- Fourth G 2.9%

11. Business Failure Rates - Myth or Reality

- First Generation Businesses - initial intentions have been to exit.
- 30% make it to the second generation
- ...less than 50% make it to the 3rd & beyond.

12. Sale of the Family Business

- 48.4% of all owners plan to sell their business
 - made up of.....
 - 53% first generation
 - 47.8% second generation
 - 33% third & fourth generation

13. Business Objectives

- 1st Generation
 - aim to survive
 - improve their lifestyle
 - to grow quickly
 - rapidly increase the value of their business
 - accumulate wealth
 - when appropriate sell their business
 - 46% plan and set up a business with the intention to sell it
 - accumulate wealth 34.0%
 - increase sales 35.2%
 - new product ranges 22.3%
 - increase profits 20.0%
- 2nd Generation
 - becoming market leaders in their industry
 - increase the value of their business 35.3%
 - increase sales 35.2%
 - new product ranges 23.4%
 - increase profits 22.4%
 - provide family members with careers 10.9%
- 3rd/4th Generation
 - achieve growth thru acquisitions & joint-ventures 21.0%
 - ...to become....market leaders 38.1%

20. Intention to Sell the Business

- 1st Generation 47.4%
- 2nd G 39.2%
- 3rd/4th G 25.6%

“...in the next 10 years”

21. Relinquishing Control

- 31.9% of 1st Generation owners do not want to relinquish family control
- 41.7% of 2nd G.....
- 42.4% of 3rd/4th G.....

22. Sources of Capital

- Retained Profits
 - 1st Generation 63.3%
 - 2nd G 66.0%
 - 3rd/4th G 76.6%
- Bank Loans
 - 1st Generation 41.1%
 - 2nd G 39.8%
 - 3rd/4th 44.2%
- Bank Overdraft
 - 1st Generation 39.9%
 - 2nd G 39.3%
 - 3rd/4th G 30.2%
- Shareholders Funds
 - 1st Generation 34.9%
 - 2nd G 33.0%
 - 3rd/4th G 41.9%
- Cash Flow
 - 1st Generation 49.2%
 - 2nd G 52.4%
 - 3rd/4th G 38.4%
- Family Loans
 - 1st Generation 6.9%
 - 2nd G 19.4%
 - 3rd/4th G 15.1%
- Equity Finance
 - 1st Generation 6.5%
 - 2nd G 4.7%
 - 3rd/4th G 3.5%
- Leasing
 - 1st Generation 21.7%
 - 2nd G 20.4%
 - 3rd /4th G 25.6%

23. Business Plans

“...management planning is a shortcoming in Australian family businesses. across generations, owners appear to be unprepared for the future

Do NOT have a business plan in writing

- 1st Generation 38.7%
- 2nd G 42.3%
- 3rd/4th G 26.1%

Do NOT have a business plan in place

- 1st Generation 20.0%
- 2nd G 23.3%
- 3rd/4th G 17.4%

Do NOT review their business plan annually

- 1st Generation 19.7%
- 2nd G 23.8%
- 3rd/4th G 31.0%

Do NOT have a formal strategic (long-term) plan

- 1st Generation 51.1%
- 2nd G 53.3%
- 3rd/4th G 39.8%

24. The Chief Executive Officer

“...the current CEO is likely to be succeeded by a non-family manager”

- 1st Generation 54.3%
- 2nd G 29.95%
- 3rd/4th G 40.6%

“...have already identified the next CEO”

- 1st Generation 27%+
- 2nd G 31.1%
- 3rd/4th G 28.2%

“...have yet to agree...”

- 1st Generation 25.4%
- 2nd G 25.6%
- 3rd/4th G 21.8%

25. Ownership Succession

“.....average age of family business owners is 52 years.....almost 60% of CEOs are planning to retire over the next 10 years”.

Transfer of Wealth

- 1st Generation \$440 billion
- 2nd G \$119b
- 3rd/4th G \$48b

Future Ownership

- Remain a family business 33%
- Preference for continued family ownership 25%
- Family ownership not important 20%
- No specific policy/preference 22%

26. Succession Plan

“...while 70% of owners regard succession and retirement planning as important only..”

- Have a Succession Plan
 - 1st Generation 31.7%
 - 2nd G 26.2%
 - 3rd/4th G 33.7%
- In Writing
 - 1st Generation 11.3%
 - 2nd G 10.8%
 - 3rd/4th G 15.6%
- Implemented
 - 1st Generation 8.0%
 - 2nd G 9.8%
 - 3rd/4th G 9.4%

27. Future Concerns

- Industry
 - 1st Generation 28.9%
 - 2nd G 28.6%
 - 3rd/4th G 32.6%
- Competition
 - 1st Generation 14.3%
 - 2nd G 16.3%
 - 3rd/4th G 4.3%
- Funding
 - 1st Generation 14.3%
 - 2nd G 11.2%
 - 3rd/4th G 8.7%
- Family Turmoil/Lack of Interest
 - 1st Generation 9.2%
 - 2nd G 18.4%
 - 3rd/4th G 19.6%
- Selecting a Successor
 - 1st Generation 9.5%
 - 2nd G 8.2%
 - 3rd/4th G 13.0%
- Retirement
 - 1st Generation 10.4%
 - 2nd G 6.1%
 - 3rd/4th G 8.8%
- Other
 - 1st Generation 13.4%
 - 2nd G 11.2%
 - 3rd/4th G 13.0%

28. Estate Planning

“...most owners have a poor understanding of estate planning and are not planning their estate effectively”.

29. The Use Of External Advisers

“...most family businesses tend to rely on the advice & counsel of other family members associated with the business rather than consulting with professional advisers”.

- Accountant
 - 1st Generation 38.5%
 - 2nd G 39.8%
 - 3rd /4th G 25.3%
- Business Adviser
 - 1st Generation 17.2%
 - 2nd G 20.4%
 - 3rd/4th G 31.3%
- Lawyer
 - 1st Generation 6.9%
 - 2nd G 11.6%
 - 3rd/4th G 8.4%
- Family Member
 - 1st Generation 6.1%
 - 2nd G 9.4%
 - 3rd/4th G 9.6%
- Multiple Advisers
 - 1st Generation 6.9%
 - 2nd G 5.5%
 - 3rd/4th G 3.6%
- Other
 - 1st Generation 9.1%
 - 2nd G 6.1%
 - 3rd/4th G 13.4%
- No One
 - 1st Generation 15.3%
 - 2nd G 7.2%
 - 3rd/4th G 8.4%

30. Type of Service Sought (from)

- Business Advice
 - Accountant 68.6%
- Personal Insurance
 - Insurance Adviser 77.2%
- Business Insurance
 - Insurance Adviser 85.0%
- Business Loans
 - Bank Manager 24.7%
 - Financial Planner 59.9%
- Additional Capital
 - Accountant 33.3%
 - Bank Manager 43.9%
- Other Financing
 - Accountant 36.7%
 - Bank Manager 32.4%
- Estate Planning
 - Accountant 29.6%
 - Financial Planner 13.3%
 - Solicitor 31.2%
 - No One 16.8%
- Retirement/Succession
 - Accountant 38.4%
 - Financial Planner 18.4%
 - Solicitor 10.5%
 - No One 24.5%

31. Retirement

- Believe ..have adequately funded program
 - 1st Generation 65.6%
 - 2nd G 71.4%
 - 3rd/4th G 76.7%
- Believe ..accurately estimated future financial needs
 - 1st Generation 72.7%
 - 2nd G 74.3%
 - 3rd/4th G 85.5%
- Retirement funding is dependent on the use of business assets
 - 1st Generation 39.3%
 - 2nd G 31.3%
 - 3rd/4th G 25.0%
- Retirement funding is contingent on the sale of the business
 - 1st Generation 23.7%
 - 2nd G 15.3%
 - 3rd/4th G 5.8%
- Retirement funding is dependent on the continued ownership of the business
 - 1st Generation 23.6%
 - 2nd G 33.0%
 - 3rd/4th G 40.0%

